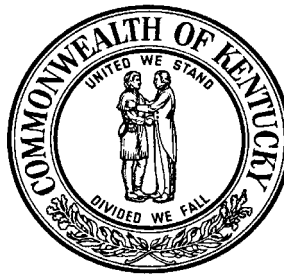


**REPORT OF THE AUDIT OF THE
FORMER ADAIR COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003



EDWARD B. HATCHETT, JR.
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet
Honorable Jerry Vaughan, Adair County Judge/Executive
Honorable Ralph Curry, Former Adair County Sheriff
Honorable Steve Cheatham, Adair County Sheriff
Members of the Adair County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the former Adair County Sheriff's Settlement - 2002 Taxes as of January 5, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the former Adair County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
FORMER ADAIR COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003

**ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone: (502) 499-9088
Facsimile: (502) 499-9132**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER ADAIR COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for former Adair County Sheriff as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$2,572,218 for the districts for 2002 taxes, retaining commissions of \$106,225 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,467,057 to the districts for 2002 Taxes. Taxes of \$8 are due to the districts from the former Sheriff. Refunds totaling \$2,761 are due to the franchise corporations.

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the former Adair County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Adair County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Adair County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gordon C. Duke, Secretary
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In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
October 30, 2003

ADAIR COUNTY
RALPH CURRY, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 277,718	\$ 466,169	\$ 1,332,383	\$ 446,332
Tangible Personal Property	20,834	30,042	86,196	69,023
Intangible Personal Property				43,756
Fire Protection	2,169			
Increases Through Exonerations	128	191	549	1,292
Franchise Corporation	27,013	40,974	117,535	
Additional Billings	553	868	2,699	874
Bank Franchises	48,708			
Penalties	16	26	80	26
Adjusted to Sheriff's Receipt	26	87	8	11
Gross Chargeable to Sheriff	<u>\$ 377,165</u>	<u>\$ 538,357</u>	<u>\$ 1,539,450</u>	<u>\$ 561,314</u>
<u>Credits</u>				
Exonerations	\$ 1,645	\$ 2,747	\$ 7,853	\$ 3,199
Discounts	4,992	6,618	18,916	7,744
Charged to Current Sheriff	<u>42,787</u>	<u>71,005</u>	<u>202,969</u>	<u>73,593</u>
Total Credits	<u>\$ 49,424</u>	<u>\$ 80,370</u>	<u>\$ 229,738</u>	<u>\$ 84,536</u>
Taxes Collected	\$ 327,741	\$ 457,987	\$ 1,309,712	\$ 476,778
Less: Commissions *	<u>14,216</u>	<u>19,070</u>	<u>52,388</u>	<u>20,552</u>
Taxes Due	\$ 313,525	\$ 438,917	\$ 1,257,324	\$ 456,226
Taxes Paid	313,349	438,635	1,259,129	455,944
Refunds (Current and Prior Year)	<u>175</u>	<u>277</u>	<u>846</u>	<u>280</u>
Due Districts or (Refunds Due)				
as of Completion of		**	***	
Fieldwork	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ (2,651)</u>	<u>\$ 2</u>

* and ** See Page 4

*** See Note 5 on Page 6

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY
 RALPH CURRY, FORMER COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2002 TAXES
 January 5, 2003
 (Continued)

*Commissions

10% on \$ 10,000
 4.25% on \$ 1,094,844
 4% on \$ 1,467,373

** Special Taxing Districts

Health District	\$	2
Soil Conservaiton District		1
Ambulance District		<u>2</u>
Due Districts	\$	<u><u>5</u></u>

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003 the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

ADAIR COUNTY
 NOTES TO FINANCIAL STATEMENT
 January 5, 2003
 (Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2002 through January 5, 2003.

Note 4. Interest Income

The former Adair County Sheriff earned \$1,896 as interest income on 2002 taxes. As of October 30, 2003, the former Sheriff owes \$75 in interest to the school district and is due a refund of \$87 from the fee account.

Note 5. Refunds Due To Franchise Corporations

Six franchise tax bills were prepared using an incorrect tax rate resulting in refunds of \$2,761 due to the franchise corporations.

Franchise Taxes	Amount Collected	Amount Due Using Correct Tax Rate	Refunds Due
Version South	\$ 4,222	\$ 3,957	\$ 265
Taylor County RECC	26	24	2
Duo County Telephone Corporation	954	894	60
Kentucky Utilities Company	353	331	22
East Kentucky Power, Inc	215	202	13
Texas Eastern Transmission Corporation	38,203	35,804	2,399
Totals	<u>\$ 43,973</u>	<u>\$ 41,212</u>	<u>\$ 2,761</u>

KRS 134.590 (5) states:

Upon proper authorization, the sheriff or collector shall refund the taxes from current tax collections held by the sheriff or collector. If there are no such funds, refunds shall be made by the finance officer of the district. The sheriff or collector shall receive credit for any refunds made by the sheriff or collector on the next collection report to the district.

The current Sheriff or the school district could make the refunds. The total refund due on the tax settlement is \$2,651; the total refund reflected above is \$2,761 for \$110 difference. This difference is the commissions retained by the former Sheriff.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Adair County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, and have issued our report thereon dated October 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Adair County Sheriff's Settlement - 2002 Taxes as of January 5, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Adair County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
October 30, 2003

